SaskTel

Financial Statements of

DIRECTWEST CANADA, INC.

December 31, 2007

DirectWest Canada, Inc. (DWC)

DirectWest Canada, Inc. (DWC), a wholly-owned subsidiary of DirectWest Corporation, publishes independent telephone directories outside of Saskatchewan. It was established to exploit the rapidly growing Independent Directory market in Canada. DWC publishes competitive telephone directories in Calgary, Edmonton, Grande Prairie, Medicine Hat, Red Deer and Winnipeg.

Operations began in 2005 through a subsidiary, The Phone Book Company Partnership, in which DWC held an 85% interest. In early 2007 DWC purchased the minority interest and now holds 100% of the business. The directories are published under the PBC EZ Finder™ Phonebook brand. DirectWest Corporation provides production and back-office functions in their Regina office.

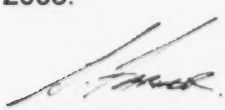
President's Message

DWC's focus is providing competitively priced directory advertising alternatives that generate a strong return on investment for customers. In 2007, DWC published its first directories in Calgary and Winnipeg.

Operating results in 2007 reflect the situation of a start-up company experiencing rapid growth. Revenue for the year increased to $5.7 million; up 39% from the 2006 total of $4.1 million.

The Canadian directory publishing sector continued to grow in 2007. Independent publishers across the country continued to expand into new markets with directory start-ups and enhanced online product offerings. Looking forward, the directory publishing sector in Canada is expected to continue its dynamic growth trend. Independent publishers will continue to grow more rapidly than incumbent publishers and increase their market share. DWC is well positioned to capitalize on this growth and will continue to focus on growing and improving the performance in their existing expansion markets while assessing new opportunities for further expansion.

In closing, I would like to thank our customers and dedicated employees for providing us the strong position from which we anticipate to continue our growth and success in 2008.



Gord Farmer
President, DirectWest

KPMG LLP
Chartered Accountants
McCallum Hill Centre, Tower II
1881 Scarth Street, 20th Floor
Regina Saskatchewan S4P 4K9
Canada

Telephone (306) 791-1200
Fax (306) 757-4703
Internet www.kpmg.ca

AUDITORS' REPORT

To The Member's of the Legislative Assembly, Province of Saskatchewan

We have audited the statement of financial position of DirectWest Canada, Inc. as at December 31, 2007 and the statements of operations and comprehensive loss, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 5, 2008

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

Statement of Operations and Comprehensive Loss

For the year ended December 31, (Thousands of dollars)	2007	2006
Gross revenue	$5,651	$4,106
Cost of sales	4,132	2,108
Gross profit	1,519	1,998
Operating expenses	4,495	3,886
Depreciation and amortization	359	361
	4,854	4,247
Loss from operations	(3,335)	(2,249)
Interest income	38	18
Non-controlling interest	13	279
Net loss	(3,284)	(1,952)
Other comprehensive income	-	-
Comprehensive loss	$(3,284)	$(1,952)

See accompanying notes

Statement of Deficit

For the year ended December 31, (Thousands of dollars)	2007	2006
Balance, beginning of year	$(2,634)	$(682)
Net loss	(3,284)	(1,952)
Balance, end of year	$(5,918)	$(2,634)

See accompanying notes

Statement of Financial Position

As at December 31, (Thousands of dollars)	2007	2006
Assets		
Current assets		
Cash	$752	$80
Accounts receivable (Note 11a)	995	459
Prepaid publishing costs	3,604	2,437
Prepaid expenses	31	25
	5,382	3,001
Property, plant and equipment (Note 6)	187	265
Intangible assets (Note 7)	1,161	1,089
Goodwill	281	271
	$7,011	$4,626
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness	$-	$123
Accounts payable and accrued liabilities (Note 11a)	1,468	1,811
Deferred revenue	1,086	667
	2,554	2,601
Non controlling interest	-	152
Shareholder's equity		
Share capital and contributed surplus (Note 8)	10,375	4,507
Deficit	(5,918)	(2,634)
	4,457	1,873
	$7,011	$4,626

See accompanying notes

On behalf of the Board:

Robert Watson

Mike Anderson

Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2007	2006
Operating activities		
Net loss	**$(3,284)**	$(1,952)
Adjustments to reconcile net loss to cash provided by operating activities		
Depreciation and amortization	**359**	361
Other	**(152)**	(65)
Net change in non-cash working capital (Note 11b)	**(1,511)**	(443)
Cash used in operating activities	**(4,588)**	(2,099)
Investing activities		
Property, plant and equipment expenditures	**(25)**	(200)
Investments, net of cash acquired (Note 5)	**(460)**	(311)
Cash used in investing activities	**(485)**	(511)
Financing activities		
Shareholder contributions (Note 8)	**5,868**	1,192
Increase (decrease) in cash during the year	**795**	(1,418)
Cash and cash equivalents, beginning of year	**(43)**	1,375
Cash and cash equivalents, end of year	**$752**	$(43)
Comprised of:		
Cash	**$752**	$80
Bank indebtedness	**-**	(123)
	$752	$(43)

See accompanying notes

Notes to the Financial Statements

Note 1 – Organization

DirectWest Canada, Inc. (the Corporation) is incorporated under the *Canada Business Corporations Act*. The Corporation markets and supplies print phone directories in the Provinces of Alberta and Manitoba.

The Corporation is wholly owned by DirectWest Corporation and the financial results are included in the consolidated financial statements of DirectWest Corporation. As a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco), through its subsidiary DirectWest Corporation, the Corporation is not subject to Federal or Provincial Income Taxes in Canada.

When the Corporation made the decision to expand into new markets, the business plan contemplated that additional investment would be required. Should the Corporation not receive continued support from its shareholder, it may not be able to continue as a going concern and significant restructuring may be required.

Note 2 – Change in accounting policies

Effective January 1, 2007, the Corporation adopted the accounting recommendations for accounting changes (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1506) in accordance with the transitional provisions of the section. The new standard allows for voluntary changes in accounting policies only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of section 1506 has had no material impact on these financial statements.

Effective January 1, 2007, the Corporation adopted the accounting recommendations for comprehensive income (CICA Handbook Section 1530), financial instruments - recognition and measurement (CICA Handbook Section 3855), financial instruments – disclosure and presentation (CICA Handbook Section 3861), hedges (CICA Handbook Section 3865) and equity (CICA Handbook Section 3251) in accordance with the transitional provisions of the sections. These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities, non-financial derivatives and embedded derivatives, and describe when and how hedge accounting may be applied. CICA Handbook Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles in Canada.

Upon adoption of these new standards, the Corporation designated its cash as held-for-trading which is measured at fair value. Unrealized changes in the fair value of these financial instruments are included in net income. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost using the effective interest method. The adoption of these new standards has had no material impact on these financial statements.

Derivatives may be embedded in other host instruments. Under the new standards embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and

Notes to the Financial Statements

Note 2 – Change in accounting policies, continued

closely related to those of the host instrument, when the embedded derivative has the same terms as those of a stand-alone derivative, and the combined contract is not held-for-trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in net earnings. The Corporation selected January 1, 2003 as the transition date for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. As at December 31, 2007, and December 31, 2006, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

The Corporation had no "other comprehensive income or loss" transactions during the period and no opening or closing balances for accumulated other comprehensive income or loss.

Note 3 – Significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Prepaid publishing costs

The Corporation defers expenses that are directly related to its publications, including printing and distribution costs, direct production salaries and salaries of sales staff. These costs are charged to income over the life of the related publication. Indirect costs are expensed as incurred.

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets.

Asset	Estimated useful life
Office furniture, equipment and leaseholds	2-10 years

Finite-life intangible assets

Finite-life intangible assets acquired in a business combination are recorded at their fair values. Amortization is calculated over the estimated useful lives of the assets.

Asset	Estimated useful life
Non-competition agreement	6 years
Customer list and relationships	10 years
Creative value of directories	3 years

Finite-life intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Notes to the Financial Statements

Note 3 – Significant accounting policies, continued

Indefinite-life intangible assets

Intangible assets with an indefinite life are not subject to amortization; they are tested annually for impairment to ensure that their fair value is greater than or equal to their carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of operations and comprehensive loss.

Revenue recognition

Revenues are earned through the sale of print telephone directory advertising. Advertising revenues are generally recognized, in accordance with the contractual terms with advertisers, on a monthly basis over the life of the print directory advertising commencing with the delivery date. Amounts billed up front for directories are deferred and recognized over the corresponding life of the related directory.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of

Notes to the Financial Statements

Note 3 – Significant accounting policies, continued

assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of accounts receivable and underlying provision for bad debts, intangible assets, goodwill, and the recoverability of prepaid publishing costs. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Derivative financial instruments

Derivative financial instruments are used by the Corporation in the management of its financial exposures as deemed appropriate, and based on the risk management strategy of the Corporation. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation, from time to time, is party to certain derivative financial instruments, principally forward foreign exchange contracts (used to manage foreign currency exposures).

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in net income. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in other comprehensive income until the hedged items are recognized in net income.

Note 4 – Accounting policy developments

Capital disclosures
The new recommendations of the CICA for capital disclosures (CICA Handbook Section 1535) will become effective for the Corporation's 2008 fiscal year. The new recommendations establish standards for disclosing information about the Corporation's capital (debt and equity) and how it is managed. Specifically, information should be disclosed to enable users of the financial statements to evaluate the Corporation's objectives, policies and processes for managing capital. The Corporation does not expect to be materially affected by the new recommendations.

Financial instruments - disclosures
The new recommendations of the CICA for financial instruments – disclosures (CICA Handbook Section 3862) replace the existing disclosure recommendations of financial instruments – disclosure and presentation (CICA Handbook Section 3861). The new recommendations will apply to the Corporation's 2008 fiscal year and will result in additional disclosures related to financial instruments, and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

Notes to the Financial Statements

Note 4 – Accounting policy developments, continued

Financial instruments - presentation
The existing recommendations of the CICA for financial instruments presentation included in financial instruments – presentation and disclosure (CICA Handbook Section 3861) are carried forward, unchanged as financial instruments - presentation (CICA Handbook Section 3863).

Inventories
The new recommendations of the CICA for inventories (CICA Handbook 3031) will become effective for fiscal years beginning on or after January 1, 2008, with early adoption permitted. The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs for increases to net realizable value. The Corporation does not expect to be materially affected by the new recommendations.

International Financial Reporting Standards
The Accounting Standards Board of the CICA has adopted a strategic plan that will result in Canadian generally accepted accounting principles (Canadian GAAP) converging with International Financial Reporting Standards (IFRS). It is anticipated that the transition process will be completed by 2011, at which time Canadian GAAP will be fully converged with IFRS for public accountable enterprises. Throughout the transition period, standards subject to joint-convergence projects may be adopted prior to full convergence. Standards not subject to joint convergence projects will be exposed in an omnibus manner for adoption at the time of convergence. Throughout the process there will be assessments of progress toward convergence, the first of which will be a progress review by the Accounting Standards Board to be released by March 31, 2008. This review will confirm the implementation date for convergence. Due to the evolving nature of IFRS through convergence projects, it is difficult to assess the impact of convergence, if any, on the Corporation.

Note 5 – Acquisition

Effective January 26, 2007, the Corporation purchased the remaining 15% interest in The Phone Book Company Partnership (the Partnership) owned by MidWest Marketing Inc. for cash consideration of $460,000. The Partnership was subsequently dissolved. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	(Thousands of dollars)
Total consideration	$460
Total tangible assets	588
Total intangible assets	353
Total liabilities	(491)
Goodwill	10
Assets acquired	$460

Notes to the Financial Statements

Note 6 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2007	2006
			(Thousands of dollars)	
Office furniture, equipment and leaseholds	$436	$249	$187	$265

Depreciation and amortization for the year totaled $106,268 (2006 - $99,232).

Note 7 – Intangible assets

	Cost	Accumulated amortization	Net book value	
			2007	2006
			(Thousands of dollars)	
Non-competition agreement	$661	$413	$248	$302
Customer list and relationships	1,027	233	794	676
Other	164	45	119	111
	$1,852	$691	$1,161	$1,089

Other intangible assets include $104,188 (2006 – $85,558) indefinite life intangible assets as at December 31, 2007.

Amortization for the year totaled $253,041 (2006 - $262,203).

Note 8 – Share capital and contributed surplus

	2007	2006
	(Thousands of dollars)	
Share capital		
Authorized – unlimited number of class A common shares		
Issued – 100 shares	$-	$-
Contributed surplus		
Balance, beginning of year	4,507	3,315
Contributions during the year	5,868	1,192
Share capital and contributed surplus, as at December 31	$10,375	$4,507

Notes to the Financial Statements

Note 9 – Commitments and contingencies

The Corporation is committed to future minimum payments under operating leases in each of the next five years as follows:

	(Thousands of dollars)
2008	$74
2009	55
2010	39
2011	12
2012	-

In the normal course of operations, the Corporation may become involved in various claims and litigation. While the final outcome with respect to claims and litigation cannot be predicted with certainty, it is the opinion of management that any resolution would not have a material adverse effect on the Corporation's financial position or results of operations.

Note 10 – Non-monetary transactions

During the year the Corporation entered into non-monetary transactions to exchange advertising for various products and services. No gains or losses have been reported on these transactions. Gross revenue includes $18,175 (2006 - $44,486), operating expenses include $18,175 (2006 - $45,137), deferred revenue includes $3,355 (2006 - $11,105), prepaid publishing costs include $3,355 (2006 - $7,954), and property, plant and equipment includes $Nil (2006 - $2,500) of non-monetary transactions.

Note 11 – Additional financial information

a) Balance sheet

	2007	2006
	(Thousands of dollars)	
Accounts receivable		
Customer accounts receivable	**$1,303**	$693
Allowance for doubtful accounts	**(342)**	(253)
	961	440
Other	**34**	19
	$995	$459
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	**$1,423**	$1,467
Other	**45**	344
	$1,468	$1,811

Notes to the Financial Statements

Note 11 – Additional financial information, continued

b) Supplementary cash flow information

	2007	2006
	(Thousands of dollars)	
Net change in non-cash working capital		
Accounts receivable	$(477)	$(264)
Prepaid publishing costs	(665)	(650)
Prepaid expenses	1	(22)
Accounts payable and accrued liabilities	(675)	909
Deferred revenue	305	(416)
	$(1,511)	$(443)

Note 12 – Financial instruments

The Corporation's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, and short-term obligations, which by their nature are subject to risks.

Price risk – currency risk

The Corporation is exposed to currency risk primarily through transactions with foreign suppliers and short-term foreign commitments. The Corporation uses a combination of derivative financial instruments to manage these exposures on an exception basis. The Corporation does not actively trade derivative financial instruments. At December 31, 2007, there were no derivative financial instruments outstanding.

Price risk – interest rate risk

The Corporation is exposed to minimal interest rate risk related to fluctuations in interest rates due to the short-term nature of the financial instruments held by the Corporation.

Price risk – market risk

The Corporation is exposed to minimal market risk related to fair value adjustments due to the short-term nature of most financial instruments held by the Corporation.

Credit risk

The Corporation is exposed to credit risk through its accounts receivable. Credit risk related to customer accounts receivable is minimized because of the large and diverse customer base covering many business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary. Provisions for credit losses are maintained and regularly reviewed by the Corporation.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are

Notes to the Financial Statements

Note 12 – Financial instruments, continued

significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, and short-term obligations approximates their fair values due to the short-term maturity of these financial instruments.

Note 13 – Related party transactions

Included in these financial statements are transactions with the former minority partner of the Phone Book Company Partnership, to January 26, 2007, and with Holdco and its subsidiaries, various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2007	2006
	(Thousands of dollars)	
Sales	**$4**	$-
Operating expenses	**623**	1,096
Prepaid publishing costs	**76**	247
Accounts receivable	**20**	-
Accounts payable and accrued liabilities	**165**	1,282

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Note 14 – Comparative figures

Certain of the 2006 figures have been reclassified to conform to the current year's presentation.